BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2005-191-E - ORDER NO. 2008-469

JULY 2, 2008

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| IN RE: Generic Proceeding to Explore a Formal Request for Proposal for Utilities That are Considering Alternatives for Adding Generating Capacity | ) ) ) ) ) ) | ORDER GRANTING EXCEPTION TO RFP ORDER |

This matter comes before the Public Service Commission of South Carolina ("Commission") on the request of South Carolina Electric & Gas Company ("SCE&G" or "the Company") for an Order excepting SCE&G from certain requirements set forth in the Commission's Order No. 2007-626 governing the addition of peaking generation facilities.

On June 24, 2005, this Commission opened a generic docket to explore the issue of requiring electric utilities to engage in formal requests for proposals ("RFPs") for the addition of generating capacity ("RFP Docket"). After due consideration, the Commission issued Order No. 2007-626 requiring a mandatory RFP for "new peaking generation requirements" and establishing a workshop to allow input regarding implementing procedures for the mandatory RFP process ("RFP Order"). The workshop was held on March 13, 2008, with the utilities and interested parties, including SCE&G. SCE&G and other companies provided a joint presentation and recommendations regarding implementation of the RFP requirements ("RFP Recommendations").

SCE&G now seeks permission from this Commission to replace four older natural gas-powered turbines used to provide peaking capacity with two newer natural gas turbines without engaging in a formal RFP process as set forth in the RFP Order. Currently, SCE&G owns three natural gas turbines located in Burton, South Carolina, and one natural gas turbine in Charleston, South Carolina, that are rated for a combined generating capacity of 38 megawatts ("MWs") at summer peak conditions. These four units, all of the same general make, were placed in service in 1961 and were used as peaking units until recently. In September of 2007, one of the natural gas turbines at Burton experienced a mechanical failure, rendering the unit inoperable. After investigating the incident and that turbine, SCE&G conducted an inspection of the other three turbines and determined that all four units needed to be retired based on the evident wear and tear on the units after such a long period of service.

The Company then explored alternatives to replacing the lost generation, including repair or replacement of the turbines. After weighing the costs and benefits of different approaches, SCE&G has determined that the most cost-efficient means of replacing the lost peaking capacity is to purchase two previously owned General electric LM2500 natural gas turbines rated at approximately 17 MWs (summer peak rating) each for placement at SCE&G's Hagood facility in Charleston. The winter peak rating is 24 MW for each of the gas turbines. The purchase and installation will carry a total cost of approximately $28 million. This purchase price translates into a cost of approximately $824 per KW. For comparison purposes, SCE&G states that if it had decided to purchase

two brand new LM2500 peaking generators, the cost would be approximately $1,176 per KW.

SCE&G states that the purchase and installation of these two relatively new turbine units is effectively a replacement of lost capacity. SCE&G asserts that the two units are newer and more efficient, which benefits the environment, the customers, and SCE&G. Additionally, the relocation of these two units in Charleston assists SCE&G in ensuring continued reliability of service in areas of anticipated growth in the Charleston area. The availability of these peaking turbines for the winter of 2008 is important for the customer base, according to SCE&G.

The Company asserts that this replacement of peaking capacity is well under even the proposed RFP exception of 75 MWs proffered by the utilities in the RFP Recommendation. SCE&G believes that engaging in a formal RFP process as contemplated in the RFP Order would impose a relatively high administrative cost to replacing and adding these peaking units. It would also delay the availability of this peaking capacity to the customer base which SCE&G would like to accomplish as soon as possible.

Accordingly, SCE&G requests that this Commission issue an Order approving the purchase of the two General Electric LM2500 gas turbines to replace the four natural gas turbines taken out of service and excepting SCE&G from the procedures set forth in the RFP Order. The Company believes that such an Order may be issued without a hearing, given the limited nature of the relief sought. We agree that no hearing is necessary in this case, due to the limited relief sought.

The Office of Regulatory Staff ("ORS") has no objection to the request. ORS states that the four original units are in need of significant repair and refurbishment for which spare and repair parts are more difficult to locate and in some cases, have to be manufactured. According to ORS, the two replacement units operate with a heat rate of 10,000 BTU/KWH, whereas the four original units operate at a heat rate of 18,000 BTU/KWH. This increase in efficiency lowers the fuel required for generating the same number of kilowatt hours by approximately 45%, according to ORS's calculations.

ORS also states that the two replacement units are early 2000 vintage, with one unit being essentially new and the other with very little run time. The two new units are quick start units, whereas the old units required considerable startup time to connect to the grid. Further, the two new units are being marketed by their owners, thus time is of the essence for SCE&G to acquire these two turbines at a significantly lower cost than the purchase of new turbines.

Lastly, ORS states that these newer units will continue to provide much needed voltage support for the Company's service territory in the Charleston area which may not be available through the RFP process. Further, ORS notes that SCE&G's request is also consistent with the Commission's expressed objectives in the RFP Order to maintain reliability, a diverse generation mix, and appropriate fuel diversity. Accordingly, ORS has no objection to SCE&G's request.

The request is granted. The reasons cited by both SCE&G and ORS convince this Commission that replacement of the four aging gas turbines used to provide peak power of 38 megawatts with two relatively new 17 MW gas turbines is a beneficial, cost

effective and fuel-efficient proposal that is consistent with the considerations that led this Commission to issue the RFP Order. This Commission will continue to consider requests such as this on a case-by-case basis, pending issuance of this Commission's final RFP requirements.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

G. O'Neal Hamilton, Chairman

ATTEST:

Charles L. A. Terreni, Chief Clerk/Administrator

(SEAL)